

**Top Secret 217**

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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday June 28, 1977

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**NATIONAL SECURITY INFORMATION**  
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State Dept. review completed

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National Intelligence Daily Cable for Tuesday June 28, 1977.

The NID Cable is for the purpose of informing senior US officials.

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WEST-EAST GERMANY: Talks Delayed

25X1 [ ] *The start of inter-German negotiations on Berlin-related matters and economic issues, already delayed for several weeks, may not begin until fall, apparently because of scheduling problems.*

25X1 [ ] A high-level West German official with responsibility for Berlin affairs informed the Western allies last week that summer travel plans of the official designated to take initial "soundings" with the East Germans are getting in the way of the talks. He indicated, however, that there is a slight chance that a draft outline of Bonn's proposals might be passed to the East Germans in the next few weeks.

25X1 [ ] The official added that the East Germans have said their vacation schedules also will make it impossible for the negotiations to begin before September.

25X1 [ ] East German leader Honecker had previously expressed impatience about West German delays to West German Chancellor Schmidt. Schmidt had promised Honecker that the talks could begin in April, but growing internal political problems and the need to prepare for the London summit prevented the West Germans from moving quickly. Honecker may have ordered the delay until September in part to express displeasure with what he saw as West German procrastination.

25X1 [ ] Another factor that contributed to the delay was the fear that a confrontation might develop at the time of a West German rally earlier this month in West Berlin to commemorate the 24th anniversary of the anti-Soviet uprising in East Berlin. Despite threats that action would be taken against demonstrators planning to use the autobahns to attend the rally, East German

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border guards did not interfere with traffic to West Berlin. This restraint suggests that East Berlin did not want to jeopardize the negotiations or exacerbate East-West tensions before the current preparatory conference in Belgrade on implementation of the Helsinki accord. [REDACTED]

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#### CYPRUS: North Versus South

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[REDACTED] *In the almost three years since the de facto partition of Cyprus, the Greek Cypriots have succeeded in creating a socially and economically viable state in southern Cyprus. The so-called Turkish Federated State of Cyprus in the north, on the other hand, has had many economic problems and faces a troubled future.*

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[REDACTED] Despite the relatively stable situation in the south, Greek Cypriot spokesmen make a point of stressing that Greek refugees must be allowed to return to their homes in the north and that the island must be reunited. In March, chief Greek Cypriot negotiator Papadopoulos declared, "Cyprus is too small and too weak to survive either economically or socially or even in the sense of defense, under a partitionist regime, no matter what name is used to cover partition and division." For the sake of maintaining a bargaining position vis-a-vis the Turks, this assertion ignores the fact that Cyprus has in fact been partitioned for three years and the Greek Cypriots are doing well.

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[REDACTED] Although reduced to holding 60 percent of the island, the Greek Cypriot community has made impressive strides in re-establishing its economy and living standards. In 1975, Greek Cyprus exported goods worth around \$150 million; this was only slightly less than the island as a whole exported in 1973, a year before it was divided. In 1976, exports rose to almost \$260 million.

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[REDACTED] One reason for this recovery is the entrepreneurial skills of members of the Greek Cypriot community, who held most of the managerial positions in the economy before the division. Another is that southern Cyprus has kept its traditional markets. The Makarios government's status as the only internationally recognized government on Cyprus has, moreover, given it greater access to foreign loans and credits.

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[ ] The Greek Cypriots have cared quite well for the estimated 183,000 Greek Cypriots who fled to the south following the Turkish invasion in 1974. Some 12,000 to 15,000 refugees still live in tents, but the Greek Cypriots have announced that even these will be properly housed before the end of this year. While many refugees were placed in government housing projects, most of them simply moved in with relatives. Most refugees receive an allowance from the government or from the office of the UN High Commissioner for Refugees that provides for a modest living.

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[ ] Rapid economic growth has substantially reduced unemployment--the current rate is estimated at 6 to 8 percent. Unemployment compensation is usually adequate--and in some cases so generous that it discourages able workers from seeking jobs.

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[ ] The south's prosperity is not shared by Cypriots in the north. In 1976, total exports from northern Cyprus amounted to slightly less than \$15 million, or not quite 6 percent of those of the south. Food prices in the Turkish area are on the average two to three times higher than those south of the dividing line.

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[ ] The Turkish Cypriots have had trouble maintaining and operating the industrial and agricultural facilities in their part of the island. Mainland Turkish settlers, numbering between 15,000 and 20,000 have had difficulty blending into Turkish Cypriot society. These settlers and the Turkish Cypriots lack the technical and managerial expertise necessary to fill the positions left by Greek Cypriots who fled southward. Turkey itself is not now capable of supplying anything more than a modest aid program and some experts.

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[ ] In the short term, chronic economic problems are not likely to pose serious political troubles for the fledgling government in the north. The willingness of Turkish Cypriots to endure hardships is a source of pride for them, and this--coupled with a need to present a united front to the Greek Cypriots--has enabled the Turkish Cypriot government to maintain relative stability. The less threatening the Greek Cypriots become, however, the more the Turkish Cypriot government can expect to be criticized by its citizens for failing to solve the economic and social problems in northern Cyprus.

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#### JAPAN-USSR: Bilateral Relations

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*[redacted] Japan has responded to recent Soviet initiatives to warm the climate in bilateral relations. Progress is likely to be slow. The Japanese face hard bargaining in hammering out a permanent bilateral fishing treaty, and business and government leaders are unenthusiastic about Moscow's renewed offer of a long-term trade and investment agreement. Prime Minister Fukuda is likely to balance any initiatives toward the USSR by stressing the more popular theme of improving relations with China, but neither Tokyo nor Peking seems to expect any real movement in their relationship for the time being.*

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*[redacted] Japan and the Soviet Union began mending their fences shortly after the signing of an interim fishing agreement last month. Soviet Foreign Trade Minister Patolichev signed a five-year extension of the bilateral trade and payments agreement in Tokyo on May 30. Patolichev's visit, which had been postponed*

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repeatedly, signaled an attempt to improve relations between the two countries, and President Brezhnev subsequently underscored Moscow's interest by sending a personal letter to Fukuda emphasizing his wishes for better relations.

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[ ] Fukuda replied in kind by dispatching Labor Minister Ishida--long a key contact between the ruling Liberal Democratic Party and the Soviets--for talks with Brezhnev and Premier Kosygin in mid-June. Ishida reportedly explored a variety of economic and political matters, including long-term economic cooperation and Moscow's proposal for a "good neighbor" treaty that would circumvent the contentious northern territories problem.

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[ ] Despite these contacts, Japanese interest in a long-term economic pact with the Soviets remains low, as does sentiment favoring any concession on the territorial dispute. In the near term, Japan is also resigned to hard bargaining with the Soviets over access to Japan's newly expanded 200-mile fishing zone.

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[ ] The limited improvements in Soviet-Japanese relations have reduced China's opportunities to take advantage of Japanese differences with the Soviets. The Chinese, moreover, were clearly displeased with Tokyo's ratification of the Japan - South Korea continental shelf agreement and with Fukuda's recent remark that other issues gave him little time to devote to Sino-Japanese relations. China showed its annoyance last week when it postponed the dispatch of its new ambassador to Tokyo indefinitely.

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[ ] The Liberal Democratic Party's decision to shelve its proposed Diet resolution favoring an early conclusion of the proposed Sino-Japanese peace and friendship treaty, and the lack of any sign that the Japanese are willing to accede to Peking's position on the treaty's anti-hegemony clause, have probably convinced the Chinese that no new Japanese initiatives are likely in the near term.

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[ ] The Chinese probably will not let their disappointment impede more general ties with Japan. [ ]

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China  
is likely to await the outcome of next month's upper house  
election in Japan to reassess the prospects for any change in  
Tokyo's attitude toward the peace treaty.

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